

JEFF SPROWLES AND ASSOCIATES, LLC

FEE ONLY FINANCIAL PLANNER AND INVESTMENT ADVISOR



VOLUME 1, ISSUE 3

THE (NOT SO) ALMIGHTY DOLLAR

NOVEMBER 16, 2007

QUARTERLY NEWSLETTER AND UPDATE



Season's Greetings,

Recently a registered representative explained why index mutual funds are not good investments. His primary objection is that those running index funds don't pay attention to the risk characteristics of the stocks they buy. It seems to me that it is easier to assess the risk and reward of an index than it is to evaluate those of a single company or market sector. An index is a defined basket of securities. Performance is likely to be less volatile than that of the discrete components because of diversification.

If I decide that domestic large cap value stocks are attractive and buy an exchange traded fund that tracks the Russell 1000 Value Index I buy a basket of 618 stocks whose behavior is reasonably well understood. If I buy a large cap value mutual fund I am hoping that the manager or management team is going to do a better job than the "market" in deciding which companies or which sectors are going to do better than the others in the class. With domestic large cap stocks this is especially difficult.

I have tried all kinds of management techniques and am convinced that implementing a thoughtful asset allocation plan using index funds is, for most people, the most efficient and cost effective way to invest in stocks.

Best regards,

Jeff Sprowles, CFP®

Mid-Quarter Update

- S&P 500 – domestic large cap
 - 9/30 to 11/15 (4.7%)
 - YTD 4.0%
- Lehman Intermediate Gov Bonds
 - 9/30 to 11/15 2.2%
 - YTD 7.7%
- 90 Day U.S. Treasury Bills
 - 9/30 to 11/15 0.5%
 - YTD 4.1%
- Emerging Markets ETF (EEM)
 - 9/30 to 11/15 1.7%
 - YTD 33.1%
- Jeff's Current Stock Outlook
 - 100% of target

JEFF'S PICK:

Developed International

Jeff's current asset allocation model for stocks calls for 30% exposure to emerging markets and 20% to developed international.

One can invest in the EAFE index (Europe, Australia, Far East) to invest in developed international stocks. Unfortunately, 25% of the EAFE is Japan whose demographics are even worse than those of the U.S. Jeff is using EZU — European Monetary Union and EWC — Canada for developed international exposure.



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MARKET COMMENTS

Through 10/31 the S&P 500 was up 10.9% and most of my client equity portfolios were up close to 20%. The subsequent drop in November looked like a buying opportunity and I invested whatever cash we had before the large "up" day on 11/12.

I still think we will have close to or over a double digit 2007 in the S&P 500. The price/earnings ratio of the S&P 500 as I write this is a little over 20 which is high by historic standards, suggesting the market should go down. On the other hand the implied real yield of the S&P 500 Index is 400% higher than the real yield on the 5 year Treasury Bond. This is very high by historic standards and suggests that there is going to be some combination of the stock market going up, corporate earnings going down or interest rates going up.

My favorite anecdotal indicator of corporate earnings, the freight activity on the Norfolk & Southern running by my office, is noticeably higher than it was in September and October. I think that on a long-term basis interest rates are more likely to go up than down but on a short-term basis I think the market probably looks attractive to institutional investors so I am staying 100% of stock target at least through the end of the year.

- - - **FINANCIAL FABLES AND SOLUTIONS** - - -

Mr. Stevenson's solution from Vol. 1, Issue 2:

Jeff Sprowles and Associates, LLC recommended that Mr. Stevenson investigate with his attorney transferring his vacation property to a *grantor retained interest trust*, commonly referred to as a GRIT. This is also called a Qualified Personal Residence Trust or QPRT.

Mr. Stevenson would create a trust that would last a specified length of time,

typically between 5 and 10 years. The longer the period of time the more he will save in gift and estate taxes. On the other hand, if he dies before the trust terminates the benefit of the trust is negated so a balance between savings and realistic prospects for longevity is necessary.

The value of the house for gift taxes is discounted based on the remainder value. This is the present value reduced by the value of keeping the house for the period of the trust.

At the end of the trust the property will belong to his children. Mr. Stevenson may continue to use the vacation house but as a guest of his children or pay rent to them.

The value of the property in his estate is fixed at the remainder interest value at the time the trust was funded as long as he survives to the end of the trust period.

Not only does Mr. Stevenson get a discount on the value at the time he funded the trust but all future increase in value is out of his estate.

For income tax reasons it isn't a good idea to use a GRIT or a QPRT for a property that the family intends to sell in the foreseeable future. It doesn't get a step up in basis at the death of Mr. Stevenson. Further, if it were his personal residence and it were sold during Mr. Stevenson's life time the primary residence exclusion would be lost if it has been deposited to a QPRT.

The best answer to this Financial Fable was submitted by:

Michael Suber



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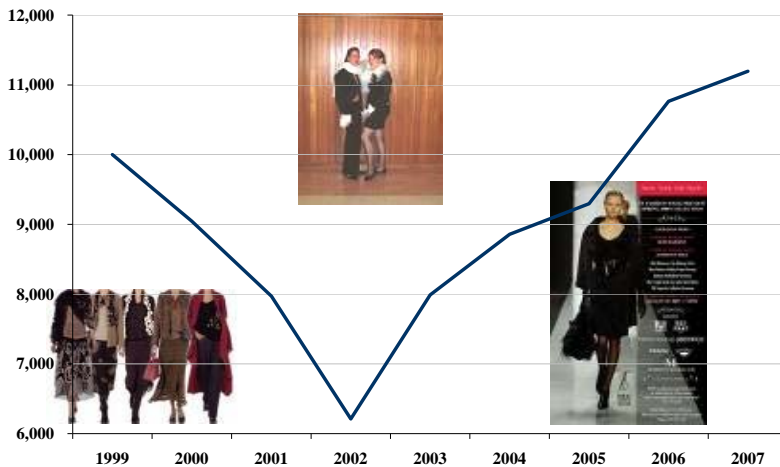
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FACT OR FICTION??

Can women's skirt lengths predict stock activity?

\$10,000 IN STOCKS 12/31/1999 to 11/15/2007



We conclude our continuing discourse about the relationship of stock market performance to women's fashion with a look at the recent past.

In the lower left is a picture demonstrating relatively low hem lengths in late 1999. The memory of what happened in stocks in 2000 to 2002 is painful.

The picture in the center dates to late 2002. The skirt apparently predicts the robust stock performance of the following few years.

The picture in the lower right is of recent vintage. We also found pictures of skirt lengths higher and lower than this with no clear trend. Perhaps a reader with a good fashion sense could advise Jeff Sprowles and Associates about the direction of hem lines.

On second thought, do not bother. This is a diverting idea but it isn't one we use to help us decide when to make stock purchases or sales.

In the next issue we will take up the topic of professional football.